

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
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PA-02 PRS-01 /095 W
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R 022321Z MAR 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 2638
INFO AMCONSUL MONTREAL
ALL OTHER CONSULATES IN CANADA(BY POUCH)

UNCLAS OTTAWA 1214

E.O. 11652: N/A
TAGS: ECON, CA
SUBJECT: NEW INFLATION FEARS

1. SUMMARY: AFTER LEARNING ON FEBRUARY 28 THAT FOOD PRICES HAD JUMPED 2.1 PERCENT DURING MONTH ENDING FEBRUARY 18, CANADIAN CONSUMERS ON MARCH 1 FACED PRICE INCREASES ON MILK, POSTAGE, TRANSPORTATION, GASOLINE, HOME HEATING OIL, LIQUOR AND CIGARETTES. FINMIN MACDONALD TOLD HOUSE COMMITTEE THAT GOC WILL NOT ACHIEVE ITS 6 PERCENT 1977 TARGET FOR INFLATION UNTIL ABOUT OCTOBER. END SUMMARY.

2. ANTI-INFLATION BOARD, WHICH HAS BEEN MONITORING FOOD PRICES IN 12 CITIES, RELEASED ON FEBRUARY 28 ITS PRICE SURVEY SHOWING RETAIL FOOD PRICES JUMPED 2.1 PERCENT DURING MONTH ENDING FEBRUARY 18. AID BLAMED RISE ON "NORMAL MID-WINTER INCREASES IN VEGETABLE PRICES... ACCENTUATED BY ADVERSE WEATHER CONDITIONS IN THE MAJOR PRODUCTION AREAS OF THE U.S." ALSO, BEVERAGE PRICES UP "SUBSTANTIALLY" WITH COFFEE PRICE INCREASE OF BETWEEN 10 TO 15 PERCENT, AND TEA UP ALMOST 5 PERCENT.
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3. BECAUSE OF ACTION BY VARIOUS GOC AGENCIES, CANADIAN CONSUMERS ON MARCH 1 FOUND THAT POSTAGE STAMPS WERE UP 2 CENTS; MILK PRICES UP 2 CENTS PER QUART; GASOLINE ROSE AS MUCH AS 4.5 CENTS PER GALLON; HOME HEATING OIL INCREASED ABOUT 4.6 CENTS PER GALLON; AND AIR FARES WERE UP 7 PERCENT.

4. OTTAWA BUS RIDER ALSO FACED 10 CENT INCREASE IN BUS FARE (TO 50 CENTS), AND ONTARIO CONSUMER WAS TOLD THAT PROVINCIAL LIQUOR CONTROL BOARD WAS RAISING PRICES BY ABOUT 5 PERCENT EFFECTIVE APRIL 1. CIGARETTE COMPANIES ALSO ANNOUNCED INCREASES IN PRICES OF ABOUT 1 CENT PER PACKAGE.

5. ON SAME DAY (MARCH 1), FINMIN MACDONALD TOLD HOUSE FINANCE COMMITTEE THAT GOC WOULD PROBABLY NOT REACH ITS TARGET OF 6 PERCENT INCREASE IN CPI FOR 1977 UNTIL ABOUT OCTOBER BECAUSE RISING CONSUMER PRICES FOR GOODS, SUCH AS IMPORTED FOOD FROM U.S., WOULD HAMPER ANTI-INFLATION PROGRAM.

6. COMMENT: GOC WAS EXTREMELY FORTUNATE IN 1976 IN BETTERING ITS TARGET OF 8 PERCENT RISE IN CPI, WITH INCREASE OF ONLY 5.8 PERCENT FROM DECEMBER 1975 TO DECEMBER 1976. HOWEVER, GOOD FORTUNE, IN FORM OF LOWER FOOD PRICES, IS SLIPPING AWAY. BAD WINTER WEATHER CONDITIONS IN U.S. HAVE HIT CANADIAN CONSUMERS.

7. CERTAIN GOC POLICY DECISIONS ALSO MITIGATE AGAINST ANTI-INFLATION PROGRAM, CHIEF OF WHICH IS DECISION TO ACHIEVE WORLD PRICE FOR OIL IN MONTHS AHEAD. THUS, GASOLINE, HOME HEATING OIL AND TRANSPORTATION CHARGES WERE BOUND TO INCREASE.

8. AS MACDONALD STRUGGLES WITH HIS SPRING BUDGET WITH LATEST GNP FIGURES SHOWING DOWNTURN IN LATE 1976
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AND DISCUSSES WITH PROVINCES, BUSINESSMEN AND LABOR METHODS AND TIMING OF DECONTROLS, PROSPECT OF POSSIBLE NEW INFLATIONARY ROUND MAKES MACDONALD'S PROBLEMS EVEN MORE DIFFICULT. ENDERS

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